

CONTROL/  
US OFFICIALS ONLY

CLASSIFICATION ~~SECRET~~ SECRET  
CENTRAL INTELLIGENCE AGENCY

## REPORT

CD NO.

50X1-HUM

50X1-HUM

COUNTRY	USER
---------	------

DATE OF INFORMATION 1950

**SUBJECT** Economic - Finance, military expenditures

DATE DIST. ~~17~~ <sup>20</sup> Jan 1951

50X1-HUM

NO. OF PAGES 30

**SUPPLEMENT TO  
REPORT NO.**

THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANS OF ESPIONAGE ACT OF U. S. C., 51 AND 52, AS AMENDED. ITS TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW. REPRODUCTION OF THIS PAGE IS PROHIBITED.

THIS IS UNEVALUATED INFORMATION

50X1-HUM

THE FINANCIAL SYSTEM OF THE USSR  
AND COMMUNIST IMPERIALISM

50X1-HUM

Financial Policy of the VKP(b)

All USSR domestic economic measures stem from the VKP(b)'s financial policy which is also the most important element in the conduct of an aggressive foreign policy. The basic "principles" of this policy add up to a regime of terror and deprivation of the population of all social and economic rights. Terror, blackmail, forgery, and murder always accompany the social and economic measures of the Communist government. All economic and financial measures of the party are for the purpose of achieving aggressive military aims.

Completely disregarding the interests of the Russian people and of Russia, the VPK(b) uses every possible means to finance the expenditures connected with the maintenance of a huge military and political machine. The state's (the party's) foreign trade monopoly, monopoly of industrial and agricultural production, and domestic trade monopoly have made it possible for the VPK(b) to base its financial policy on a domestic policy of price-fixing, that is, on a policy of fixing the value of the ruble.

### Value of the Soviet Bible

When estimating the value of the Soviet ruble, the question inevitably comes up as to which value of the ruble you are talking about. In the USSR monetary system, the ruble has four different values, value of the ruble being understood to mean the ruble's purchasing power in goods. The value of the ruble is planned and fixed in accordance with party dictates, taking into account the following functions of the ruble:

- 1 -

**CONTROL/IN OFFICIALS ONLY**

**CLASSIFICATION**

**SECRET**

CLASSIFICATION				EXCLUDED COUNTRY			
ORIG	<input checked="" type="checkbox"/>	DDP	<input checked="" type="checkbox"/>	NSC			
ARMY	<input checked="" type="checkbox"/>	ACR		PSI			

**SECRET**S-E-C-R-E-T

50X1-HUM

1. The market value of the ruble. This is its value in the sphere of market trade and wages.
2. Its value in agricultural procurement. This is its value in the sphere of state procurement of agricultural products from the peasantry.
3. Its value with respect to the goods produced by state industry. This is its value in the sphere of settlements between state industry and state organs for shipments of industrial products.
4. The official foreign exchange value. This is its value in exchange for foreign money in the USSR, in settlements between government agencies (the Ministry of Foreign Trade with other ministries) for foreign goods, and in settlements with embassies and Satellite countries. "Foreign exchange" rubles paid in wages to Soviet workers abroad also come in this sphere.

To determine the goods equivalent (value) of the ruble, we shall use an index with respect to the dollar, breaking the monetary system down into the aforementioned spheres.

#### 1. Market Value of the Ruble

In the 1941-45 war period, the ruble's market value (in goods) fell to between a twentieth and a thirtieth of its prewar value. This was inevitable, since the market value of the ruble depended on the volume of goods delivered by state industry and state agriculture.

Limiting the production of goods for the civilian population (agricultural products and industrial goods) and conversion of all industry to war production deprived the market of sources of supply. The resultant diminution of the supply of goods on the market broke down the whole monetary system.

The state, not getting bank notes back from the population in the form of turnover tax, resorted to the printing press to finance war needs. Depreciation of the currency resulted in the impoverishment of the population, and made the monetary measure of wages a fiction.

The bread ration became the real measure of income. After the war, the party, making use of the monetary situation of the war period, conducted a monetary reform by halving the ruble's prewar market value in goods. This made it possible to double turnover tax receipts and thus to create the financial basis for preparing a third world war. This thesis is borne out by the following calculations:

In Table 1 the prices of 13 commodities are given in the prices of the prewar year of 1940 and in 1950 prices (after the March 1950 price reduction). The average price index, as can be seen from the table, is 2.27.

According to published figures, turnover tax receipts in the 1940 USSR budget amounted to 105.9 billion rubles, while turnover tax receipts in the 1950 budget were planned at 238.4 billion rubles. Thus, division of the 1950 turnover tax by the 1940 one gives an index of 2.26. It follows from data that, by keeping the procurement prices for agricultural products at the prewar level, and by keeping wages, with some slight changes, at the same prewar level, with a simultaneous two- to threefold increase in turnover tax, the VKP(b) reduced the population's standard of living correspondingly.

#### Income of the Population of the USSR

[The term hereinafter translated as "income" is "proshchitnyy minimum," or "living wage." "Income," however, seems to fit the context better.]

- 2 -

S-E-C-R-E-T**SECRET**

**SECRET**S-E-C-R-E-T

50X1-HUM

The unbearably difficult living conditions of the population of the USSR are the result of the price policy, that is, of the high tax exacted by the party and of the low market value of the ruble.

The purchasing power of the ruble relative to the dollar has been ascertained by a comparison of market prices in the USSR and the US. Table 2 compares the costs of the main foods and industrial goods in the USSR (in rubles at 1950 prices), to those in the US (in dollars at 1950 prices).

Comparing US market prices with USSR prices gives an average price index of one to 28 (see Table 2). It can be seen from the table that the entire assortment of goods (13 items) costs 27.5 dollars in the US at market prices, while the same group of goods costs 755 rubles 40 kopeks in the USSR.

Taking the current wage rates (average) in the US and in the USSR, a comparison may be made between the income of a worker in the USSR and that of a worker in the US, as follows:

Comparison of Incomes of Industrial Workers in the US and in the USSR

<u>Monthly Wage, by Class of Worker</u>	<u>US (dollars)</u>	<u>USSR (rubles)</u>
Unskilled worker		
Wage	160	200
Wage index	1	1.25
Worker of medium skill		
Wage	300	450
Wage index	1	1.50
Highly skilled worker		
Wage	380	760
Wage index	1	2.00
Market value (index) of the ruble relative to the dollar	1	28
Income <u>[in dollars]</u>		
Unskilled worker	160	7
Worker of medium skill	300	16
Highly skilled worker	380	28

Incomes of Persons in Intellectual Professions

Using average salaries, the monthly incomes of persons in intellectual professions in the USSR and the US are shown by the following figures:

<u>Monthly Salary and Training</u>	<u>US (dollars)</u>	<u>USSR (rubles)</u>
Persons in technical and intellectual professions <u>[presumably technicians and office workers]</u>		
Salary	200	400
Index	1	2.00
Persons with medium training (engineering-technical personnel)		
Salary	600	1,000
Index	1	1.60
Highly trained personnel		
Salary	800	1,400
Index	1	1.75
Market value (index) of ruble	1	28

- 3 -

S-E-C-R-E-T**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

<u>Monthly Salary and Training</u>	<u>US</u> <u>(dollars)</u>	<u>USSR</u> <u>(rubles)</u>
Income <u>[in dollars]</u>		
Personnel in technical professions	200	14
Personnel with medium training	600	35
Highly trained personnel	800	50

The incomes of workers and office workers in the USSR compared with the incomes of the same groups in the US are very low. Using the preceding calculations, we find:

<u>Class of Worker</u>	<u>Monthly Income</u>		
	<u>US</u> <u>(dollars)</u>	<u>USSR</u> <u>(dollars)</u>	<u>USSR in</u> <u>% of US</u>
Workers			
Unskilled	160	7	4.3
Specialists with medium skill	300	16	5.3
Highly skilled specialists	380	28	7.3
Persons in intellectual professions			
Technical professions	200	14	7.0
Specialists with medium training	600	35	5.8
Highly trained specialists	800	50	6.2
Average			6.1

The ratio of the income of workers and office employees in the US to that of workers and office employees in the USSR is 16:1.

This data on the incomes of workers and office employees in the US and the USSR should be corrected for the direct taxes levied upon their wages.

In the USSR, the taxes taken from wages amount to the following (in percent of the wage):

1. Income tax, calculated according to a scale which takes into account dependents, childlessness, etc. -- 7 to 10 percent.
2. State loans (subscription is compulsory and amounts to 3 or 4 weeks' pay withheld from wages over a 10-month period), in percent of the monthly wage -- 8 to 10 percent.
3. Trade union and club dues (trade union membership and payment of dues are compulsory), in percent of the monthly wage -- 2 percent.

In the US, the size of the income tax depends on the size of the family, the wage, and the total income. The amount of tax paid by the various classes of workers and office employees is lower in the US than in the USSR and comprises 10-12 percent of the monthly wage. Hence, when the factor of taxation is taken into consideration, a comparison of wages in the USSR with the wages of the same groups in the US becomes still more unfavorable to the USSR.

Communist propaganda loudly advertises the free medical care and education provided by the state and tries to prove that these and the low cost of communal services [kommunal'nyye uslugi: housing, etc.] increase the workingman's income. From an economic standpoint this is not true, since there will be no appreciable change in the income as far as obtaining food and clothing is concerned. The importance of communal services, medical care, and education in increasing the wage budget of working people in the USSR can be shown by the following rough calculations:

- 4 -

S-E-C-R-E-T

**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

# 1. Communal Services and Payment for Them by Workers and Office Employees

In the USSR, payment for communal services is based on the following: (a) the norm of living space per person, and (b) a progressive scale of rents which takes into account salary.

The living space norm has been set at 4.7 meters per person. Based on this norm, the rent is according to a scale which ordinarily takes into account the amount of the monthly wages and which amounts to up to 10 percent of the wages received. When the norm is exceeded, the rent for each meter over the norm is triple. In such cases the proportion spent for communal services is increased to up to 15 percent of the wage.

Low incomes and the rationing of living space due to the small amount of residential construction in cities have resulted in extremely crowded and unsanitary living conditions in the USSR. Comparing living conditions in the US, it is apparent that (a) working people in the US pay 12-15 percent of their wages for communal services [housing?] and (b) at the same time four or five times as much living space as the corresponding groups of workers in the USSR, who pay 10-12 percent of their wages for their living space.

## 2. Medical Services

In the USSR, health measures are financed from two sources: (a) the budget and (b) social insurance. Financing from social insurance is based on the laws on compulsory payment by all economic organizations of an amount equal to 2.5 percent of their payroll for social insurance, the money being transferred to a social insurance budget account. In the case of industrial, trade, and other economic organizations, this payment is at the expense of a corresponding increase in the cost of production, and in the case of budget financed organs, the payment is covered in the budget grant. Thus the main part of social insurance funds (up to 85 percent) are expenses passed on to the working people (increase in the cost of production).

The sickness certificates issued by clinics are paid for from social insurance. When the People's Commissariat of Labor was dissolved, social insurance was transferred to the trade unions. Owing to the small size of social insurance funds, clinics issue sickness certificates very sparingly. As a result of this and to avoid prosecution and imprisonment, people often have to go to work when they are sick.

According to Finance Minister Zverev's report (Pravda, 14 June 1950), health expenditures of the 1950 USSR budget were planned at the following amounts: from the state budget, 22.0 billion rubles; from the social insurance budget, 18.1 billion rubles.

In Zverev's report, expenditures for "health and physical culture" are combined. A large part (up to 35 percent) of state budget allocations is spent on the maintenance of military hospitals and clinics, and for the military training of youth (roughly 7-8 billion rubles). Taking this into account, health expenditures are computed as follows: from the state budget, 14-15 billion rubles; from social insurance (from the working people), 18 billion rubles; total, 33 billion rubles.

Taking the population of the USSR as 190 million (see the section entitled "Population"), per capita health expenditures amount to 173 rubles per year or 14 rubles per month. It must be taken into consideration that, except when hospitalized, the individual has to pay for his medicines. The high cost of medicines at pharmacies puts a severe strain on his meager budget. Thus state health services do not much affect the incomes of the working people of the USSR.

- 5 -

S-E-C-R-E-T

**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

The 1950 budget provides for allocation of 22.4 billion rubles for social security.

According to the 1939 census, persons over 60 comprise 6.6 percent of the total population, from which it can be deduced that the number of persons with the right to pensions is 6.6 percent of 190 million, or 12,540,000 persons.

It must be taken into account that after World War II there were in the USSR as many as 4 or 5 million invalids in the second and third categories [not defined].

Since the peasants, who constitute 65 percent of the population, do not receive social security benefits, the allocated sum is spent for social security for 7-8 million persons. From this, it can be computed that the average social security benefits from the state amount to 3,000 rubles per year (22.4 billion divided by 7.5 million), or 250 rubles per month, which does not provide even a meager existence for war veterans and old people. Converting at the market value of the ruble, this amounts to 8 million dollars per month.

### 3. Educational Measures

According to Finance Minister Zverev's report, expenditures on education in the 1950 budget are planned at 59.5 billion rubles, the number of students in primary and middle schools at 37.9 million, and the number in institutions of higher education at 1.2 million. Hence, average expenditures per student are to be 1,522 rubles per year (59.5 billion divided by 39.1 million), or 126 rubles per month. Of course, this amount is different for the different school levels, being half as much for the middle school as for the primary school, and half as much for the university as for the middle school.

It must be taken into account that in many cases the scant income of the family of a worker or office employee in the USSR makes it impossible for his child to attend school at all or to provide the child with clothing and schoolbooks.

Appropriations for education include considerable amounts for the military training of youth. These amounts are spent on the maintenance of Pioneer camps which teach the children the conditions of military life in the field while they are at camp. Large sums are spent on the support of military clubs and departments in middle schools and colleges, for the salaries of military training instructors, on the support of military research institutes, etc. A rough estimate of these expenditures would be 12-15 percent of the total appropriation [for education], or in the case of the 1950 budget, 7-9 billion rubles.

Without being important in the sense that it increases the income of the population as a whole, the system of free state education increases 10-20 percent the real wage of the family with school-age children. Payment for middle schooling has been introduced in the postwar period.

While reducing the incomes of workers and office employees in the USSR, the party is forced to retain the principles of free education in order to train literate workers for use in industry and literate soldiers for the Red Army.

- 6 -

S-E-C-R-E-T

**SECRET**

S-E-C-R-E-T **SECRET**

50X1-HUM

The Policy of Compulsion and the Trade Unions

To make the worker's economic ties with the governmental organs firmer and to insure his absolute obedience, the VKP(b) has turned the trade unions into an appendage of the state, with the purpose of suppressing the working people's freedom and their legitimate economic demands. As is generally known, the attempts of the party opposition to fight this line ended in the complete defeat and execution of the opposition. In the course of the struggle to prevent the working people from manifesting their will, Stalin resorted to the police apparatus and introduced the principle of turning the trade unions into an auxiliary organ of the party. Thus the trade unions' role is to serve as a cover to hide the working people's lack of rights and as a "democratic" screen.

This trade union "reform" of Stalin's is described as follows in the Bol'shaya Sovetskaya Entsiklopediya (USSR volume 1948, pp 1746-1748): "The trade union leadership, headed by Tomskiy, did not hesitate to set the trade unions up against the party. ... The Mensheviks loudly proclaimed the counter-revolutionary theory of the 'neutrality' and 'independence' of the trade unions from the party and the Soviet state. These theories were supposed to justify their attempts to undermine the building of socialism and organize strikes in state enterprises." This is how, during the thirties, Stalin created the trade union organs which suppress the working people's trade union democratic freedoms in the USSR.

Into the trade union organizations of the USSR come, in overwhelming numbers, party cardholders looking for the relatively easy work of trade union "gabber", (boltun) persons with no prestige among the electorate and appointed on the party's "recommendation."

According to figures given in the Bol'shaya Sovetskaya Entsiklopediya, there were 27 million trade union members in the USSR in 1947. The receipts part of the 1946 trade union budget (one percent of the payments from the members' wages) amounted to 2,028 million rubles (op.cit., p 1755). This of course does not include secret expenditures of economic and other organizations, connected with the performance, by trade union bureaucrats not relieved of their basic work, of various duties concerned with "cultural work among the masses."

The trade union budget is usually spent as follows: 60 percent for supporting the higher trade union organs (the trade union officials), and 40 percent for club propaganda work and military training measures (military reading rooms, furnishings, literature, etc.).

Party Oligarchy

If one accepts the Marxist theory of classes, then in the USSR, in addition to the peasantry, the working class, and the intelligentsia, a fourth class has been created, that of the party oligarchy.

The party oligarchy of 4 million, which rests on a police machine of 2 million, has made economic and spiritual slaves of the population of the country it rules. The motto, "The end justifies the means," has become the guiding moral principle of the ruling Communist class in both domestic and foreign policy.

It is obvious that it worries the "leaders" of this class that around the country they rule, the country of the torture chamber, there are free people and free countries, and that they, the leaders, may sooner or later find themselves on trial for the crimes they have committed. The only way out of this

S-E-C-R-E-T**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

situation, the party believes, is to crush democratic freedoms and democratic countries completely. This idea, in a somewhat veiled form, is stated as follows in the Bol'shaya Sovetskaya Entsiklopediya, 1948 edition, p 1702: "Under the leadership of I. V. Stalin, the Bolshevik Party has, over a long period of time, been stubbornly, consistently, and steadily preparing the Soviet Union in every way for active defense."

The Red Army Infantry Combat Manual, Part 2, 1942, defines the term "active defense" thus: "... to entrench oneself, wait for a time, gather strength, and, shifting to the offensive, crush the enemy." In World War II the VKP(b) was confronted with the fact that the Russian people did not want to fight under the flag of the VKP(b). The Russian people were faced with the dilemma of whom to consider enemy number one -- Hitler or the VKP(b). The usual lies and crafty methods resulted in the Russian people's fighting shoulder to shoulder with the democratic peoples of the world, believing that democracy would triumph in the USSR.

The anthem and slogans of the Third International were thrown out of the Bolshevik arsenal as unnecessary trash, and Russia and patriotism were brought to the fore. The war has ended, and the Russian people want friendship with the US, want to heal the wounds of war, but the "leaders" think otherwise.

Preparation of new swindles, new aggression, and determined preparation for a third world war -- these are the plans of the VKP(b). The 1948 Bol'shaya Sovetskaya Entsiklopediya, page 1699 states the party leaders' obsession with the idea of ruling the world in the following way: "The system of postwar peace has completely broken down. During these years, the USSR has experienced a further economic boom and an increase in its political and military power, and has waged a continuous struggle for universal peace, at the same time expanding the vast work of strengthening the country's defenses and increasing the preparedness of the Red Army and Navy for combat."

The VKP(b) has subordinated all aspects of the population's economic and social life to the tasks of militarizing the country. In reality the country has been transformed, by Hitlerian methods, into a vast barracks. A great deal of attention has been paid to educating the youth in a spirit of militarism. The 1948 edition of the Bol'shaya Sovetskaya Entsiklopediya carries the following description of these measures: "The Central Committee of the Komsomol adopted a resolution [on 22 June 1941] on the military training of all Komsomol members, of both sexes, able to bear arms" (op. cit., p 1738 [should read 1733]). ... "There were 4 million Komsomol members in 1936 and 10 million in the postwar years" (op. cit., page 1729 [should read 1730]). ... "Under party guidance, the Komsomol has done a tremendous amount of work among the Pioneers. In 1938, Pioneer organizations had more than 10 million children (aged nine to fifteen) in technical and cultural clubs. There were more than 4 million Pioneers in physical culture clubs. There are Pioneer detachments everywhere, in almost every city and town in the country (op. cit., p 1740 [should read p 1730]).

From these statements it is quite obvious that the VKP(b) is preparing a new world war. The VKP(b) has put the apparatus of suppression, the party apparatus, in a privileged position; the tentacles of the party apparatus are found in all parts of the people's social and economic life. The party apparatus has swelled and turned into a monstrous bureaucratic machine.

The TsK VKP(b), the central committees of republic Communist parties, and kray, oblast, city, and rayon party committees meet, consider, decree, appoint and remove party and nonparty workers, reward, and punish. There is no authority in the country higher than this bureaucratic machine.

- 8 -

S-E-C-R-E-T

**SECRET**



**SECRET**  
S-E-C-R-E-T

50X1-HUM

The Presidium of the Supreme Soviet, the judicial organs, the soviets of workers' deputies, the councils of people's commissars, the administrative and economic ministries, trusts, factories, state farms, and collective farms are all subordinate to the corresponding division of the corresponding party organ.

Administration of the country's economy from the offices of party organization secretaries has resulted in extremely bureaucratic administration, deterioration of leadership, and, in the end, in retardation of economic progress..

Monopoly of power has resulted in overindulgence, conceit, and plutocracy. Secret funds, "benefits" amounting to 2-3 months' salary, health resorts, purchases at state industry prices, and other grafting ways accompany party workers wherever they go.

The rule, or rather the unwritten law, that a government prosecutor may not bring a party member to trial before a criminal court and that the case is heard in a civil court, has resulted in lawlessness and abuse of the people which are being concealed from the public.

The discussion of a party member's criminal act in the Central Control Commission of the party unit to which he belongs ends with an entry in his personal record of "reproof," "reprimand," etc., and fines, rather than with imprisonment, 1-15 years' hard labor, or the death penalty inflicted on persons not in the party.

The VKP(b), the party which has a monopoly of state power, has taken in a large number of adventurers and lovers of easy gain. The special laws applied to party members, plunderers of the national property, have resulted in deterioration of the moral principles of the dictator's henchmen.

The theories of Marx, Lenin, and Stalin are taught by the VKP(b) to the population of the USSR as "revelations from God" with the assertion of the "immutability" of the order established in the USSR in accordance with these theories and of the inevitability of its coming into being throughout the world. In accordance with this concept, the Russian people, having "applied" this theory to the political organization of the USSR under the influence of the Communist Party, should be looked upon as the most advanced people in the world and as the saviors of the world and civilization from the "terrors of decadent capitalism."

In this same vein, the past history of Russia is taught the population in an interpretation which teaches that the present Communist order was inevitable for Russia.

The VKP(b) asserts: "Soviet and Marxist historiography considers the history of Russia and the history of the USSR to be in one system, and sees the history of the USSR as an all-encompassing, inevitable, natural process in the total development of the peoples of the Soviet Union" (op. cit., p 286 [should read p 285]).

This pseudoscientific theory is really a screen for the predatory exploitation of the population of Russia, a theory which, like the Nazi philosophy, has its roots in the desire to achieve mastery of the world.

After seizing power forcibly, the VKP(b) has been trying by every possible means to instill in the enslaved population the idea that the USSR government is the "people's" government. For this it uses primitive demagoguery, proceeding from the assertion that "the VKP(b) is the vanguard of the working classes, and if this is so, then the rule of the VKP(b) is rule by the working classes, by the people ..."

- 9 -

S-E-C-R-E-T**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

The VKP(b) states: "In the USSR, rule by the people is complete; political and economic authority belong to the working classes, to the people" (op. cit., p 75 [not on this page]).

"The VKP(b) is the guiding core of all social and state organizations of the working people. The VKP(b) leads the Soviet people in their struggle to strengthen the dictatorship of the working class, for the victory of Communism.

"The guiding principle of the organizational structure of the VKP(b) is democratic centralism" (op. cit., p 1665).

When seizing power, the VKP(b) prodded the people to attack the [then existing] government, and actually showed them how to destroy the existing democratic forms, promising to establish more democratic, truly "popular" forms of government. After seizing power and establishing its absolute authority, the VKP(b) easily abandoned its own theoretical stand and shifted its attention to the creation of police organs to suppress the will of the people. According to the explanations of the VKP(b), suppressing the will of the people, physical extermination of the will, is practiced "in the interests of the people" and is authorized by the "interests of the people."

The VKP(b) asserts: "An important feature of the Soviet government of the new type, since it is a government of the new type, is the very nature of the suppression method. Lenin teaches that the exploiters cannot be suppressed by police ... 'they can be suppressed only by the masses themselves; the apparatus should be connected with the masses, should represent them as councils'" (Lenin, Sochineniya (Works), Vol 22, p 353; Bol'shaya Sovetskaya Entsiklopediya, p 1446).

"The chief function of the socialist state in the first phase of its development is, in addition to defense of the country from external attack, suppression of the exploiting classes within the country" (Bol'shaya Sovetskaya Entsiklopediya, p 1442).

"The victory of the socialist method of production has fundamentally changed the class structure of the USSR. The exploiting classes in the USSR have been liquidated" (op. cit., p 757).

If there are no classes, then who is the present police machine, larger than ever before, supposed to suppress?

#### The Communist Party and Religion

To suppress the will of the people and turn them into obedient, dumb "cattle," the VKP(b) set about with particular ferocity to annihilate the church and its priests, the representatives of the Christian religion.

The VKP(b) states: "The Soviet government could not go so far as to claim that church organizations and religious cults were used for antinational, antistate purposes, and was forced to take ... the necessary repressive measures ..." (op. cit., p 1780 [not on this page]). "Separating the church from the state means, above all, preventing the church from interfering, in any form, in the political activity of the state, since the state has no need for the help of the church ..." (op. cit., p 1783)

During the war period of 1941-45, a period of the severest trials, the Russian people demolished all the barriers the government had erected against their religious yearnings. The VKP(b) became thoroughly convinced that it had failed in stamping out the people's faith and love of religion.

- 10 -

S-E-C-R-E-T

**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

Immediately, without losing its composure, the party changed its course and brought the church to the support of its staggering authority.

The VKP(b) tries to play down this explosion of religious feeling, but it cannot ignore it, and acknowledges the following:

"During the war, the Russian Orthodox Church conducted a campaign to collect money to build the Dmitriy Donskoy tank column. In all, the Church turned over 300 million rubles to the defense fund during the war" (op. cit., p 1780).

In the postwar period, the VKP(b) has already started organizing religious seminaries and is bringing the priests into political work, i. e., into state work.

#### Financing the Communist Party Apparatus

Supporting the cumbersome party apparatus, which is an unnecessary duplication in administration, costs the people billions of rubles. These unproductive expenditures are financed from the USSR budget. Party membership dues (between 2 and 3 percent of the member's salary) are spent for "improving living standards," "lump-sum benefits" to party executives, club work, etc.

The privileged position of party executives and the right to purchase goods at state prices have corrupted the party apparatus.

The incomes of party executives should be taken as four times the size of the incomes of other persons in executive positions in the state apparatus.

#### Agricultural Procurement Prices and the Peasantry

The VKP(b) attracted the peasantry with the slogan, "Land to the peasants" in the period of the conquest of power. After the seizure and consolidation of power, the VKP(b) took the land away from the peasants and, with no pang of conscience, converted them to landless laborers on the state kolkhozes.

The struggle of the peasantry for land did not stop. Millions of peasants were exiled to Soviet penal servitude, but the peasants' thirst for personal ownership of land, cattle, and agricultural implements was not eliminated. It was not without cause that the Soviet leaders saw potential enemies of the Soviet dictatorship in the peasantry.

The peasantry has not forgotten the slogans of the VKP(b), has not forgotten that it was deceived. The VKP(b) leaders remember only one of these slogans: "The October Revolution triumphed because it succeeded in separating the bourgeois from their present allies" (Stalin, The October Revolution, p 78, 1932).

#### Procurement Prices on Agricultural Products

The policy of the VKP(b) in regard to fixed procurement prices of agricultural products oppresses the Russian peasantry and hinders the development of agriculture.

Actually, the VKP(b) does not procure grain, cotton, and other agricultural products from the peasants -- it confiscates them through obligatory prices. The peasant is deprived of the possibility of selling even one pud of grain on the market until the quantity goals established by the plan are met. If he does, he is threatened with repression -- exile to penal servitude. Under threat of such repression the peasant is deprived of the right to use his own agricultural raw materials for the production of household goods necessary for his existence.

- 11 -

S-E-C-R-E-T

**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

Norms for grain and other agricultural products which must be delivered to the state are so defined by procurement plans that the peasantry is left a starvation ration.

As a result of the VKP(b) measures, the peasant is deprived of incentive to develop agricultural production. He has no guarantee that the state will not confiscate all the harvest reaped from kolkhoz fields. Therefore, the peasant turns his special attention to working his small (one-half hectare) garden plot, which can only provide his family with a life of semistarvation.

The degree to which the Russian peasant is robbed by the state can be made obvious by a comparison of the fixed agricultural prices established by the VKP(b) with the prices of agricultural products in the USA, as follows:

Product (1 kg)	USA		USSR		USSR Price Index as Compared to US Prices
	Dol	Ct	Rub	Kop	
Wheat	--	10	--	15	1.5
Rye	--	7	--	12	1.7
Raw bread [sic. Russian is khleb-syrets; probably should read khlopok-syrets, raw cotton]	--	90	1	40	1.5 1.6 avg

NOTE: The index figure of 1.6 holds for other agricultural products: hides, meat, lard, chickens, milk, butter, etc.

The robbery of the peasant by the Communist state is fully obvious: the peasantry is forced to accept 1.6 rubles for produce worth one dollar in the US, and then to pay 28 rubles for every dollar's worth of these same agricultural products, or industrial goods, brought from the state. Thus, the peasants receive 5 percent of the real value of their products (1.6 : 28).

The VKP(b) was faced with the choice of one of two alternatives: (1) to establish normal economic relations with the peasantry, to renounce the rearmament race and plans for world domination, or (2) to place the peasantry in the position of state kolkhoz slaves. The VKP(b) chose the second path. There is no doubt that this path will lead to the destruction of the Communist regime based on force.

#### State Industrial Prices

The policy of the VKP(b) in regard to fixing industrial prices is based on two fundamental economic factors: (1) the wage policy for industrial workers and office employees and (2) fixed state prices for agricultural raw materials.

Disregarding the purchasing power of the ruble, the absolute wage of the Russian industrial worker, expressed in rubles, is equivalent to 1.8 times the absolute wage of the American industrial worker expressed in dollars. Agricultural raw material prices are planned in the ratio of 1.6 rubles to one dollar. Thus, the two basic cost factors in the production of industrial goods -- raw materials and wages -- are estimated by the index 1.7 (in rubles), when calculated in dollar terms.

Such factors as the unsatisfactory organization of production, excessive expenditures due to bureaucratic methods of administration, high margins of profit, and the financing of military preparations increase the commercial cost of industrial products.

- 12 -

S-E-C-R-E-T

**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

Prices (commercial cost) of basic types of industrial products in the USSR compared to prices of similar products in the US are as follows:

Product	Unit of Measurement	USSR Prices 1950		US Prices 1950		USSR Price Index Compared to US Prices
		Rub	Kop	Dol	Ct	
Iron	1 ton	190	--	52	--	3.4
Steel	" ton	220	--	53	--	4.1
Baked bread	" ton [sic]	--	20	--	20	1.0
Cotton cloth	1 meter	--	80	--	26	3.2
Army overcoats	1 coat	65	--	20	--	3.2
Army boots	Pair	30	--	6	--	5.0
Avg price index of industrial goods		506	--	131	46	3.9

Industrial prices are used in settlements between state industries, and between industry and state organizations. In the latter case, when the goods involved are for consumer use, these prices are subject to a turnover tax of 1,000 percent and more.

State defense construction and army procurement are calculated for budget purposes by the index 3.9 to 28, but in relation to the dollar the index is 3.9 to 1.

#### Population of the USSR

The false propaganda of the VKP(b) stresses the "keen, solicitous attitude of the father of the people" and the prosperity of the people of the USSR. These brazen, false declarations have no factual basis in the actual living conditions of peoples subject to the VKP(b). The VKP(b) affirms: "People are the most important of all capital values in the world" (Stalin, Problems of Leninism, 11th edition, p 491).

"Thanks to the growth of the material well-being of the workers of the USSR, to the growth of culture and public health standards, and to decline of the death rate and growth of the birth rate, the population growth in 1933 was 23.7 percent per 1,000, as against 16.8 percent in Tsarist Russia" (Malaya Sovetskaya, Entsiklopediya, 1938 edition Vol. 7, p 318).

The falseness of these assertions is obvious if one tracks down and analyses population figures given in the Soviet encyclopedia, and population figures for pre-Revolutionary Russia given in Der Grosse Brockhaus, an encyclopedic dictionary.

According to the Brockhaus figures, the annual growth of the population in Russia for the 90-year period 1801 - 1894 averaged from 1.35 to 1.65 percent. Annual population growth in Russia and in other countries for a 50-year period, 1841 - 1891, per 100 inhabitants averaged (data from Der Grosse Brockhaus Vol 20, p 629):

Russia	1.45
US	1.40
England	1.24
Germany	1.06
France	0.30

Population age groups in pre-Revolutionary Russia (according to the figures of Academician Bunyakovskiy, (based on an analysis of the 1880 census) were as follows (data from Der Grosse Brockhaus, Vol 20, p 619):

- 13 -

S-E-C-R-E-T

**SECRET**

S-E-C-R-E-T

SECRET

50X1-HUM

	Percent
Children under 8 years	27.2
" 8 to 19 "	20.9
Adults 20 to 29 "	16.9
" 30 to 39 "	12.9
" 40 to 49 "	9.1
" 50 to 59 "	7.0
" 60 years and older	6.0

Published figures concerning the results of the 1913 census placed the Russian population within the 1913 borders on 1 January 1914 at 174,100,000. If one excludes the population of the Russian zones of Poland and Finland, some 18,100,000, the population of Russia within the USSR borders was 156 million (174,100,000 minus 18,100,000).

According to Soviet figures, "the census of 17 January 1939 showed a population of 170,407,000. After inclusion of the western oblasts of the Ukrainian SSR and Belorussian SSR, Bessarabia, Northern Bukovina, and the Baltic states -- Latvia, Estonia, and Lithuania -- the population of the USSR was increased by almost 23 million. Therefore, in 1940 the population of the USSR totaled 193 million" (Bol'shaya Sovetskaya Entsiklopediya, USSR volume, p 51).

"Conditions were created in the USSR which made possible quicker growth of the population. The relative preponderance of young people indicates the high birth rate in the USSR" (op. cit., p 51). According to the census of 17 January 1939, population age groups were as follows (data from Bol'shaya Sovetskaya Entsiklopediya, USSR volume, p 51):

	Percent
Children under 8 years	18.6
" 8 to 19 "	26.5
Adults 20 to 29 "	18.0
" 30 to 39 "	14.9
" 40 to 49 "	9.0
" 50 to 59 "	6.4
" 60 years and older	6.6

Comparison of population age groups in pre-Revolutionary Russia and those given in the figures of the 1939 census in no way bear out Soviet claims. On the contrary, they show a decline in the proportion of children under 8 years of age from 27.2 percent to 18.6 percent of the total population -- which indicates an increase in mortality of children. These figures also show that adult groups up to 50 years of age have not altered proportionately.

Using the population figures of the 1913 census, and those of the Malaya Sovetskaya Entsiklopediya for population growth in the 30 years preceding the Revolution (1.68 percent per year), it is possible to arrive at the following conclusions regarding Russian population losses connected with Communist despotism:

1. Population of Russia according to the 1913 census -- 174.1 million. Of this figure, 156.0 million were within the 1940 borders of the USSR.
2. Natural population growth in pre-Revolutionary Russia per 100 inhabitants per year -- 1.68.
3. Natural growth of the population for the 25 years from 1914 to 1939 in percent (25 x 1.68) -- 42 percent, and in people -- 73.5 million.

- 14 -

S-E-C-R-E-T

SECRET

50X1-HUM

S-E-C-R-E-T**SECRET**

4. Hypothetical population on 1 January 1939, including natural growth (156 x 65.5) -- 221.5 million.

5. Actual population of the USSR, according to the 1939 census -- 193 million.

6. Population losses connected with increased mortality in the period 1914 - 1939 -- 28.5 million.

In World War I, Russia lost 1.7 million men. If this figure is subtracted from item 6, above, losses for the revolutionary period are found to total 26 million (28.5 - 1.7). On the basis of the figures cited, it may be seen that population growth in Soviet Russia fell to 0.9 percent per year in comparison with the pre-Revolutionary figure of 1.68 percent.

The causes for the staggering increase were as follows:

Famine and extermination of people in the period 1918 - 1920.

Famine in the years 1930 - 1933.

Forced collectivization in the years 1929 - 1931.

Purges, exile to penal servitude, and mass executions throughout the entire period of VKP(b) despotism.

Finally, the low income of the people, their half starved existence combined with an unbearable work load, and the mobilization of women and minors for work.

These factors produce early old age, premature exhaustion of the body, and an increase in the death rate.

The Bol'shaya Sovetskaya Entsiklopediya, page 68 states: "The emancipation of women in the USSR led to their widespread participation in all branches of social labor." The Bol'shaya Sovetskaya Entsiklopediya, pages 68-69, gives the following data concerning the participation of women:

"In 1913, 636,000 women, including students, were employed. This figure included 401,800 women factory workers.. In 1929, 3,304,000 women were employed. They constituted 27.2 percent of the total workers and office employees. In 1937, 9,357,000 women were employed. They constituted 34.7 percent of the total workers and office employees. The number of women employed in heavy industry was 3,298,000."

The mass participation of women in productive work in the USSR is the result not of their emancipation but of the enslavement of the entire population of the USSR, and the maintenance of the population in the vise of extreme material need, purposefully created by the VKP(b).

Minors aged 14 - 15 were drawn into production (in practice the age qualification was lowered) by a decree of the Presidium of the Supreme Soviet, "Concerning Labor Reserves," dated 2 February 1940. Compulsory mobilization of minors is taking place in kolkhozes. After brief training in trade and FZO schools, the minors are used for heavy labor in coal, oil, metallurgical, and other branches of industry. This method of recruiting workers incontestably plays a pernicious role in undermining the health of the younger generation if one considers that millions of youths are subjected to mobilization.

- 15 -

S-E-C-R-E-T**SECRET**

S-E-C-R-E-T

SECRET

50X1-HUM

The Bol'shaya Sovetskaya Entsiklopediya affirms that such recruitment is "emancipation," but actually these measures lead to destruction of the family, increase in child mortality, and mutilation of the younger generation.

According to the Bol'shaya Sovetskaya Entsiklopediya, "The US required 30 years to increase urban population 127 percent; the USSR required only 12 years to increase it 112.5 percent. The urban population of the US grew from 30.4 million to 69 million in the years 1900 to 1930. That of the USSR grew from 26.3 million to 55.9 million in the years 1926 to 1939" (op. cit., p 63).

The Bol'shaya Sovetskaya Entsiklopediya cites the following figures concerning the growth of the urban population of Russia:

<u>Year</u>	<u>Urban Population (thousands)</u>	<u>Percent of Total Population</u>
Census 9 Feb 1897	15825.6	14.8
Count 1 Jan 1914	24686.6	17.7
Census 17 Dec 1926	26314.1	17.9
Census 17 Jan 1939	55909.9	32.8

In accordance with the usual tactics of the VKP(b), the encyclopedia passes over in silence the factors which have affected the growth of urban population in the USSR. These factors are as follows:

1. The desperate poverty of the rural population, resulting from the arbitrary policies adopted by the VKP(b) in the procurement of agricultural produce (plunder of the peasantry).

2. Ruin and hunger among the peasants resulting from forced collectivization of farms.

These conditions led to the flight of the peasants to the towns in an attempt to save themselves from death by starvation. The growth of the urban population in the USSR has not been accompanied by a parallel growth in construction of housing facilities, and this has led to congestion of the urban population. Poverty and unsanitary living conditions have led to an increase in the death rate.

The growth of the urban population in the US took place in the midst of a general increase in the economic well-being of the population, intensive development of industry, intensive construction of housing facilities, mechanization of agriculture, and growth of the wealth of farmers and urban workers.

The Bol'shaya Sovetskaya Entsiklopediya, page 67, "The Great October Revolution wrought a basic change in the class structure of the USSR's population. According to the figures of the 1939 census, the population of the USSR is divided into the following social groups:

<u>Social Group</u>	<u>No of People (1000)</u>	<u>Percent of Total</u>
Workers, urban and rural	54,566.3	31.9
Office employees	29,738.5	17.6
Members of kolkhozes	75,616.4	44.7
Cooperative handicraftsmen	3,388.4	2.3
Non-cooperative handicraftsmen	1,396.2	0.8
Individual peasant farmers	3,018.0	1.9
Nonworkers	60.0	--
Other groups	1,235.3	0.8
Total	169,519.1	100 percent

- 16 -

S-E-C-R-E-T

SECRET



S-E-C-R-E-T

SECRET

50X1-HUM

"In 1913, the exploiting groups constituted 15.9 percent of the total population; the peasantry 65.1; workers and office employees 16.7; and other groups 2.3 percent. In the USSR, there are no antagonistic classes. The exploiting classes have been liquidated."

It is necessary to make the following comments concerning the statements of the encyclopedia:

1. The division of the population into social groups is made on the basis of a total of 169,519,000 inhabitants, but, according to the census, the total population was 170,467,000. There is a discrepancy of 948,000.

2. The encyclopedia artificially diminishes the relative proportion of the rural population. According to the encyclopedia, the urban population was 55,909,900 in the 1939 census. If this figure is subtracted from the total population (170,400,000 - 55,900,000), the rural population would total 114.5 million, or 67.4 percent of the total. The encyclopedia gives it as 44.7 percent, and arrives at this figure by including part of the village population in the group called workers, urban and rural. Since the encyclopedia does not know where to put the 15 million repressed people in the labor camps, such methods of "statistical" humbug are resorted to.

3. The total of office employees is given as 29.7 million. This indicates the colossal bureaucratic machine which has developed as a result of Soviet principles of economic administration (one office employee for every five productive workers). One aspect of this bureaucratization is indicated by the encyclopedia in the total of office employees given for state establishments -- 1,833,000.

4. The VKP(b) has adopted a policy of falsification and lies to conceal the true situation in the USSR from world public opinion. This is clearly indicated by the figures which the 1948 edition of the encyclopedia gives concerning the population of the USSR.

Actually, the destruction of the people is an integral part and consequence of the financial-economic policy of the VKP(b). This policy of "destruction" finds its expression in the policy of the "father of the people," that beast in human guise.

D. Yu. Dalin writes very reasonably in the article "How Russia Defended Itself" (*Novyy Zhurnal*, 14, 1946): "The Soviet government compensated for insufficient armament with a surplus of cannon fodder. Indeed, the world is much indebted to the Russian soldier for his self-sacrifice. Truly they performed miracles. However, the government is discredited rather than vindicated by the misfortune of its people who had to oppose tanks and airplanes with heroism."

In his article, Dalin comes to the conclusion that Soviet Russia's losses in the war of 1941 - 1945 were between 12 and 16 million people. In our opinion, this figure is too low.

#### Lend Lease and the USSR Victory

According to Lend-Lease figures, the US furnished the USSR with:

Foodstuffs	2.5 billion dollars
Airplanes	14,795 [units]
Tanks	7,056 "
Antiaircraft guns	8,218 "
Explosives	345,000 tons
Motor vehicles	427,000 units

- 17 -

S-E-C-R-E-T

SECRET

S-E-C-R-E-T **SECRET**

50X1-HUM

By 1942, the USSR did not have food to supply the army and the home front. In 1943, 80 percent of the army's food supply was switched over to Lend Lease. Hundreds of thousands of people on the home front died of hunger. The market price of bread increased 30 times and more.

Actually, millions of tons of US food saved the Soviet Army from hunger and disintegration. The armament, munitions, and motor vehicles supplied by the US saved the Soviet army from defeat in 1943. The impracticable form of the Soviet economy led the USSR to this position.

These facts demonstrate the vital capacity of the US, which preserved the stability of its currency under conditions of large-scale financing of its Allies. This was made possible by the colossal development of production.

The military production of the US increased from one billion dollars in 1939 to 86 billion dollars in 1944. Meanwhile, the production of consumers' goods increased from 88 billion dollars in 1939 to 113 billion dollars in 1944.

#### Quotation of the Soviet Ruble in Relation to Foreign Currency

The VKP(b) does not publish figures on the extent to which the Soviet ruble is backed by foreign currency and gold. The income and outgo of foreign currency and gold are kept strictly secret. Actually, the foreign currency and gold held in Gosbank has become a large part of the personal treasury of the Politburo. Huge sums figure in the foreign budget of the USSR. They are spent for the maintenance of foreign Communist parties, and for subversive work abroad (financing of strikes, publications, etc.).

Expenditure of foreign currency is either not reflected in the USSR budget at all, or is reflected in settlement payments with state organs for goods supplied from abroad.

The VKP(b) quotes the ruble arbitrarily in relation to foreign currency, independently of its buying power on the domestic market.

Quotation of the ruble in relation to foreign currency has only narrow significance in: (a) pricing of goods coming from other countries, and handed over to industry and (b) exchange of foreign currency in the USSR by foreign diplomatic agencies.

The import and export of raw materials or industrial goods is not determined by considerations of economic advantage, but basically with regard to considerations arising out of the position of the budget in regard to foreign currency, political considerations, and defense measures.

A decree of the TsK VKP(b) and the Council of Ministers USSR dated 28 February 1950 established the exchange rate for the ruble in relation to the dollar as 4 to 1. This correlation determines the basic settlement rate paid by industrial enterprises and the military establishment for raw materials and equipment received from abroad.

#### USSR Budget

The budget policy of the USSR is based on the same economic premises as the general financial policy of the VKP(b). The technique used for drawing up the budget is based on the principle of constantly growing appropriations for every branch of the economy.

- 18 -

S-E-C-R-E-T**SECRET**

S-E-C-R-E-T SECRET

50X1-HUM

This planned policy of appropriations is to a large extent the result of "tailoring" the budget, that is, the distribution of appropriations among branches of the economy in accordance with the assumed law of growth. Thus, for example, appropriations for defense are intended to prove the "pacific intentions" of the USSR, and do not vary sharply from year to year. For this purpose, corresponding sums are distributed among branches of the economy.

The budget is an integral part of the financial plan of the USSR, and reflects the balance of payments between separate branches of the economy and the budget. Thus, budget policy is predicated on the planning of the social and economic life of the country. Concentration of the entire economy of the country in the hands of the VKP(b) permits the planning of separate measures and their financing either by by-passing the budget and including them in the financial plans of individual branches of the economy, or by using budgetary appropriations of a given branch of the economy for projects not directly related to that branch. For example, the financing of a large explosives combine, clearly a military measure, is borne by the agricultural budget, insofar as this combine is capable, if necessary, of turning out peacetime products such as fertilizer (Azot combine in Chirchik). Purely military measures, as for example, retraining of military reserves, are not included in the budget at all, but financed at the expense of individual branches of the economy, by including these sums in the production cost. Military training of youth is financed at the expense of budgets drawn for educational institutions; research institutes doing work of a military nature are financed by various economic and budget-supported establishments.

This type of financial practice leads to a position wherein sums allotted by the USSR budget constitute only a part of the expenditures by the state for the militarization of the country.

#### The Tax Policy and the Budget

The tax policy of the VKP(b), as was noted above, is based on the price policy, that is, on the fixing of the market value of the ruble. The VKP(b) masks the high rate of taxation. Minister of Finance Zverev, describing in his report the revenue part of the 1950 budget for the USSR, pointed out: "Thus, about two thirds of all budgetary income consist of receipts from turnover tax accounts of socialist enterprises" (Pravda, 14 June 1950).

In effect, the turnover tax is a form of excise tax on the population. If the turnover tax is to be called income from "socialist" enterprises, then by the same token the excise tax on vodka of the Tsarist government was "socialistic," since the income from the vodka monopoly was included in the turnover tax.

The rate of taxation of the USSR's population in 1950 as compared with 1940, in billion rubles, is given in the following table:

Form of Tax	1940	1950	1950 in Percent of 1940
Direct taxes	9.4	36.4	387
Forced loans	11.5	31.8	281
Excise tax (turnover tax)	105.9	238.4	226
Total	126.8	306.6	242

Taking into consideration the population losses in the 1941 - 1945 war, let us assume that the population in both 1940 and 1950 was 190 million. If this is true, then the average per-capita tax in these 2 years was as follows: 1940, 663 rubles; 1950, 1,610 rubles.

- 19 -

S-E-C-R-E-T

SECRET

50X1-HUM

S-E-C-R-E-T SECRET

According to published budget figures, taxation of the US population in these years was as follows (federal budget, billion dollars):

<u>Form of Tax</u>	<u>1940</u>	<u>1950</u>	<u>1950 in Percent of 1940</u>
Direct taxes	1.3	13.7	
Income tax	0.8	3.0	
Excise tax	1.8	7.6	
Total	3.9	29.3	
Returned to people	0.5	4.4	
Total	3.4	24.9	732

According to published figures, the population of the US in 1950 was 150.5 million. Taking the reported 1940 population as 130 million, the per-capita tax was as follows: 1940, 26 dollars; 1950, 165 dollars.

In absolute terms, not taking into consideration the purchasing power of the ruble and dollar, per-capita taxation in the USSR is six times [sic] higher than that in the US (1,610 : 165 = 975 percent).

These indexes do not give the full picture of taxation in the USSR, because the peasants are subjected to a tax in kind. Part of this tax is not shown in the Soviet budget, but is hidden in settlements with the military establishment and elsewhere.

After this correction, the taxation rate in the USSR is seen to be ten times higher than that in the US, while the buying power of the population is appreciably less, and the USSR is generally backward in an economic sense in comparison with the US.

#### Militarization of the Country and the USSR Budget

In his report on the USSR budget for 1950, Minister of Finance Zverev came to the conclusion, in describing military expenditures, that "the basic portion of the state budget in the USSR is spent on the needs of socialist re-production and the raising of the material and cultural standards of the people. ...

"The state budget of the US is a military budget, bearing unmistakable indications of an aggressive character. ...

"Expenditures for national defense constitute 18.5 percent of total budgetary expenditures in the USSR in 1950. Expenditures for atom bomb production and other military measures in the US constitute more than 32 billion dollars, or about 76 percent of the budget ..." (Pravda, 14 June 1950).

To analyze the size of appropriations for military needs by comparing the proportion of these appropriations to the budgets of the US and USSR is pure nonsense from an economic standpoint. Undoubtedly this is fully clear to Zverev himself.

Such an analysis is designed for its effect on credulous people, and is aimed at deceiving world public opinion. If one excludes from the USSR budget expenditures which are not included in the US budget because they are financed by private organizations (education, public health, national economy), it will be seen that the proportion of USSR military expenditures sharply increases, as is shown in the following table.

- 20 -

S-E-C-R-E-T

SECRET

**S-E-C-R-E-T SECRET**

50X1-HUM

## Proportion of Military Expenditures in the Budget

Items	US Budget		USSR Budget	
	Billion Dollars	Percent of Total	Billion Rubles	Percent of Total
Items in US, USSR budgets subject to comparison (financing of agriculture, social insurance, administrative expenses)	17.6	57.3	76.9	49.2
Military expenditures	<u>13.1</u>	<u>42.7</u>	<u>79.4</u>	<u>50.8</u>
Total expenditures	30.7	100.0	156.3	100.0
Items (other economic and cultural expenses) in US, USSR budgets not subject to comparison	<u>12.6</u>		<u>276.8</u>	
Grand total	43.3		433.1	

From these figures it is obvious that the proportion of the USSR budget allotted for military expenditures is higher than the proportion of the US budget allotted for the same purposes: US budget, 42.7 percent; USSR budget, 50.8 percent.

In comparing the value of appropriations for military needs in the USSR and US, it is necessary to take the following factors into consideration: (1) the value of the ruble in relation to the dollar (in USSR military expenditures) and (2) the size of hidden appropriations in the USSR budget for military needs.

## 1. The Value of the Ruble in Relation to the Dollar in USSR

## Military Expenditures

The planned value of the ruble used in settlements of the military establishment and state industry is of the magnitude of 4 to 1 in relation to the dollar. Figures concerning the index of the ruble were cited in the section "State Industrial Prices." On the basis of this index, it is necessary to evaluate expenditures for military needs in the USSR in relation to dollar expenditures in the US for the same purposes.

## 2. Hidden Expenditures for Military Needs in the USSR Budget

When the USSR budget for 1950 was approved, Stalin introduced a proposal, which was "accepted" by the Supreme Soviet, to lower construction costs (against estimated appropriations) by 25 percent. Appropriations for capital construction in 1950, according to Zverev's report, were 135.6 billion rubles. Naturally, if 50-85 percent of estimated construction costs were composed of planned wages for construction workers and fixed construction materials prices, a 25 percent lowering of costs is unrealistic. The proposal introduced by Stalin implies:

a. A revision of the construction program by changing the list of construction projects previously approved for 1950.

b. The freeing and use of funds for financing military projects by curtailing the volume of work on nonmilitary projects; and consequently an increase in the 1950 budgetary appropriations for military purposes (25 percent of 135.6 billion) by 33 billion rubles.

- 22 -

**S-E-C-R-E-T****SECRET**

50X1-HUM

S-E-C-R-E-T **SECRET**

Hidden expenditures for military needs include appropriations of the financial plans, the budgets of separate branches of the economy, and the social-cultural sector. The size of these expenditures is approximately as follows:

a. The financial plan and the educational budget provide funds for maintenance of military scientific-research institutions and camps for military instruction of young people to the extent of about 7 to 9 billion rubles.

b. The financial plan and the public health budget provide funds for the maintenance of military hospitals and military medical schools to the extent of approximately 7 to 8 billion rubles.

c. The financial plan of all branches of the economy and of budget-supported institutions provide funds for retraining reserve command staffs to the extent of approximately 10 to 12 billion rubles.

When the hidden expenditures cited above are taken into consideration, appropriations made by the budget and financial plan for military purposes in 1950 are appreciably increased.

Taking a conversion index for wages as 1.8 in relation to the dollar, and for industrial prices as 4.0, USSR appropriations for military purposes in 1950 expressed in terms of both rubles and dollars were as follows:

<u>Source of Financing</u>	<u>Billion Rubles</u>	<u>Billion Dollars</u>	<u>Conversion Index</u>
Budget expenditures for defense	79.4	19.8	4.0
Lowering capital construction costs	33.0	8.2	4.0
Expenses charged to education	9.0	5.0	1.8
Expenses charged to public health	8.0	4.4	1.8
Expenses charged to various branches of the economy and budget-supported organizations	<u>12.0</u>	<u>6.6</u>	<u>1.8</u>
Total	140.4	44.0	

When the above corrections are taken into account, the 1950 budgetary appropriations for military purposes will appear to be as follows: US, 13.1 billion dollars; USSR, 44.0 billion dollars.

Over and above the factors already mentioned, the following facts must be taken into consideration in any evaluation of the militarization policy introduced by the VKP(b):

1. Financing by the USSR budget of capital investment in industry and agriculture also includes appropriations for military construction.

2. The financial plan of kolkhozes includes appropriations for procurement of military supplies (grain).

3. An analysis of corresponding expenditures in USSR and US budgets must take into account that US pay to enlisted men is higher than that in the USSR. Pay to enlisted personnel in the USSR is 10 rubles per month and that to enlisted personnel in the US is 100 dollars per month. For an army of 2.5 million enlisted men, this difference in pay rates amounts to the respectable sum of 2.7 billion dollars per year.

- 22 -

S-E-C-R-E-T**SECRET**

S-E-C-R-E-T **SECRET**

50X1-HUM

William Bullitt writes in an article in the June 1950 issue of the Reader's Digest: "Time works against us (US), and this will go on until we come to realize that Stalin will never stop voluntarily; he must be stopped. Today we must live modestly, as our forefathers lived in the days of Valley Forge."

#### Military Expenditures of the USSR

The financial structure of the USSR, particularly the currency circulation, differs greatly from the financial structure and currency circulation of other free countries of the world. The policy of concealing budgetary appropriations, and the peculiarities of currency circulation, make it difficult to give an economic analysis of the budgetary-financial policy of the USSR and of expenditures for the militarization of the country.

An illustration of the lack of understanding in these matters may be seen in a memorandum of the US Department of State (EER, 16 August 1950) dealing with the military expenditures of the USSR. A comparative analysis of military expenditures of the USSR and the US, based exclusively on the relative share which these expenditures occupy in the budget and the national income of these countries, is fallacious. This comparison conceals the actual state of affairs and is the reason why the Communist leaders adopt it (see report of USSR Finance Minister Zverev, Pravda, 14 June 1950).

While not attempting any detailed calculation, the aim of this study is to present a general financial-economic analysis, giving the general methodology used in computing the size of the military appropriations in the USSR.

In estimating the USSR expenditures for military purposes, it is necessary to take into account the following economic factors: (1) the USSR budget covers three fourths of the country's national income and (2) the USSR monetary unit -- the ruble -- has various commodity values, depending on the domain in which the money is circulating.

#### Financial System of the USSR

Communist ideologists believe that "taxes are among the basic sources of the material might of the state which is the instrument of domination in the hands of the exploiting classes." This concept is fully applicable to the USSR, with the addition, however, that taxes are also an instrument for world domination by the VKP(b).

The USSR financial system is based on the principle of concentrating the major part of the national income within the state budget. The revenue of the USSR budget for 1950 was approved in the amount of 433 billion rubles, while the total national income of the country was 650 billion rubles. Therefore, the budget included 65-75 percent [sic] of the national income.

The revenue of the US budget for 1950, minus return payments, amounted to 37.8 billion dollars, which constituted 14-15 percent of the US national income of 256 billion dollars.

It should be borne in mind that the valuation of the USSR national income at 650 billion rubles is tentative and depends on the peculiarities of monetary circulation and the price structure of commodities.

As has been pointed out above, the radical differences between the USSR and US budgets, as well as the peculiarities of monetary circulation in the USSR, make it impossible to evaluate the military expenditures of the two countries by determining the relation of these expenditures to either the budget or the national income.

- 23 -

S-E-C-R-E-T**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

The channeling of 65-70 percent of the USSR national income through the budget is achieved by the following measures:

1. Requisitioning from the peasants of grains, technical crops, and animal products at compulsory prices which, in relation to the dollar, may be expressed by the following index: 1.8 : 1.0,
2. Establishing fixed wage rates for workers and employees. Disregarding the purchasing power of the ruble and the dollar, the relation of the wage rates of various categories of workers and employees in the USSR and the US may be expressed by the following index: 1.75 : 1.00.
3. Selling industrial and agricultural goods to the population at fixed prices (including indirect taxes), which are related to prices of similar goods in the US as follows: 28.0 : 1.0.
4. Calculating the cost of industrial production and prices of state industry on levels which, in relation to prices of similar products in the US, can be expressed by the following index: 3.5-4 : 1.0. This cost index is conditioned by the following factors:
  - a. Fixing wage rates on a level which, in relation to the dollar, is characterized by the index of 1.75 : 1.00.
  - b. Procurement of agricultural raw material at prices which, in relation to prices on similar US products, are characterized by the index of 1.8 : 1.0.

Burdening production costs with additional expenditures such as mobilization expenditures, expenditures for military training of personnel, social insurance, high margins of profit, and high overhead expenses increase production costs and raise the above cost index of industrial production to 3.5-4 : 1.0.

Thus, the commodity value of the ruble in relation to the dollar fluctuates as follows:

1. Procurement prices of agricultural raw materials: 1.8 : 1.0. The medium in which this value of the ruble is used are settlements between state procurement organizations and peasants and state procurement organizations and the military establishments for delivery of food and raw material.
2. State industrial prices with a ratio to the dollar of 3.5-4 : 1.0. The medium in which this value of the ruble is used includes settlements between state industry and the military establishment and settlements with state trade organizations. Turnover taxes are not included in these settlements.
3. Consumers' goods prices, with a ratio to the dollar of 28.0 : 1.0. The medium in which this value of the ruble is used are settlements between the retail trade network and the population, which include transfer of turnover taxes to the budget via Gosbank.
4. Official foreign-exchange quotations of the ruble, with a ratio to the dollar of 4.0 : 1.0. The medium in which this value of the ruble is used are settlements of the Ministry of Foreign Trade with state industry for equipment and with the military establishment for goods purchased abroad; accounts of Gosbank with foreigners exchanging foreign currencies in the USSR and settlements with state organizations making purchases abroad.

- 24 -

S-E-C-R-E-T

**SECRET**



**SECRET**S-E-C-R-E-T

50X1-HUM

The enforcement of these price policies is achieved by means of state monopolies on agricultural production and procurement, industrial and handicraft production, and foreign and internal trade.

These monopolies enable the VKP(b) to divert into the budget 65-70 percent of the national income and to finance military expenditures which exceed two or three times the military expenditures of the US and the democratic bloc.

The channeling through the budget of the major part of the national income is achieved by means of indirect taxes (turnover tax) on consumers' goods to the extent of 1,000 percent and over. The total amount of taxes imposed on the population in 1950, according to the budget approved by the Supreme Soviet, is expressed in the following figures:

	<u>Billion Rubles</u>
Indirect taxes (turnover tax)	238.4
Direct taxes	36.4
Compulsory loans	<u>31.8</u>
Total	306.6

It follows from the above that indirect taxes constitute 77.7 percent of the total tax burden carried by the USSR population.

According to the US budget of 1950, the population paid the following taxes:

	<u>Billion Dollars</u>
Direct taxes	21.7
Excise (indirect taxes)	<u>7.6</u>
Total	29.3
Reimbursement to the population (insurance <u>social security</u> , etc.)	<u>4.4</u>
Net taxation	24.9

It follows that indirect taxes constitute 30.5 percent of the total tax burden carried by the US population.

The Malaya Sovetskaya Entsiklopediya, Vol 7, p 298, maintains that "by increasing indirect taxes, the bourgeoisie at the same time expands personal income tax. . . The most important type of indirect taxation is excise. . . The turnover tax introduced in a number of countries is basically a universal excise tax, since it is imposed on all commodities. . . Indirect taxes are the most burdensome form of taxation, insofar as the working population is concerned. Falling upon consumer's goods, the tax has a deteriorating effect on the standard of living. . .

"The fight against taxes is the school of the class struggle. . . The Communist parties of capitalist countries advocate the repeal of indirect taxes."

These statements require no comment. While plundering its own population by means of enormous indirect taxes, the VKP(b) instructs its fifth columns in other countries to fight for the repeal of indirect taxes in order to disrupt the financial system of these countries.

25 -

S-E-C-R-E-T**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

Assuming that the population of the USSR in 1950 numbered 190 million and the US population 150 million, the per-capita taxation in the two countries was as follows:

<u>Items</u>	<u>USSR</u>		<u>US</u>	
	<u>Total</u> <u>billion</u> <u>rubles</u>	<u>Per</u> <u>Capita</u> <u>(rubles)</u>	<u>Total</u> <u>billion</u> <u>dollars</u>	<u>Per</u> <u>Capita</u> <u>(dollars)</u>
Direct taxes	68.2	356	17.3	116
Indirect taxes	238.4	1,254	7.6	50
Total	306.6	1,610	24.9	166

Bearing in mind the above economic factors, the military expenditures of the USSR, expressed in ruble and dollar values, amounted in 1950 to the following:

<u>Source of Financing</u>	<u>Billion</u> <u>Rubles</u>	<u>Conversion</u> <u>Index</u>	<u>Billion</u> <u>Dollars</u>
Budget appropriation for defense			
Army subsistence and monetary allowance	24.0	1.8	13.0
Combat equipment	55.4	4.0	13.8
Total	79.4		26.8
Extra appropriations under items of capital construction	33.0	4.0	8.2
Other budgetary appropriations:			
Education	9.0	1.8	5.0
Health	8.0	1.8	4.4
Total	129.4		44.4
Appropriations on accounts of financial plans of branches of industry	12.0	1.8	6.6
Appropriations on accounts of production and financial plan estimates of industry	42.0	4.0	10.5
Appropriations on accounts of the Foreign Currency Plan of the UPNO*, Gosbank (subsidizing subversive activities abroad)	--	--	1.2
Grand total	183.4		63.0

\*Upravleniye Nachal'nika Operativnogo Otdela, Office of Chief of Operational Section

There is no doubt that the actual USSR expenditures for military purposes diverge from the above amounts, but the divergence does not exceed 10-15 billion rubles.

- 26 -

S-E-C-R-E-T

**SECRET**

**SECRET**S-E-C-R-E-T

50X1-HUM

Assuming that in terms of dollars the USSR budget is the equivalent of 120 billion dollars and that the USSR national income is the equivalent of 160 billion dollars, we arrive at the following ratios of military expenditures in the USSR and the US:

<u>Items</u>	<u>US</u> <u>(billion dollars)</u>	<u>USSR</u> <u>(billion dollars)</u>
National income	256	160
Budget (revenue)	38	120
Budget in relation to national income	14.7%	75%
Military expenditures (prior to Korean operations)	13	63
Military expenditures in relation to:		
The budget	34.2%	52.5%
The national income	5.2%	39.3%

- 27 -

S-E-C-R-E-T**SECRET**

**SECRET**S-E-C-R-E-T

50X1-HUM

## APPENDIX

Table 1. Index of Commodity Prices in the USSR in 1950 as Compared to 1940

Commodity	Unit of Measurement	1940 Prices		1950 Prices	
		Rubles	Kopeks	Rubles	Kopeks
White bread	1 kg	2	70	6	20
Dark wheat bread	" "	1	70	3	40
Rye bread	" "	-	85	2	00
White flour	" "	2	90	4	80
Lump sugar	" "	5	50	12	75
Potatoes	" "	-	45	1	25
Beef	" "	14	00	22	00
Cigarettes ("Kasbek")	1 pk	2	50	4	00
Vodka	1 bot	15	60	65	00
Printed calico	1 m	4	50	9	00
"Boston" silk	" "	180	00	350	00
Silk stockings	1 pr	12	00	35	00
Leather oxfords	" "	90	00	240	00
Total		332	70	755	40

Price index, 1940 to 1950

1

2.27

NOTE: Prices for 1940 and 1950 are taken from official figures published in the USSR press.

Table 2. Purchasing Power of the US Dollar and the Soviet Ruble

Commodity	Unit of Measurement	US Prices		USSR Prices	
		Dollars	Cents	Rubles	Kopeks
White bread	1 kg	-	35	6	20
Wheat bread	" "	-	30	3	40
Rye bread	" "	-	30	2	00
White flour	" "	-	25	4	80
Lump sugar	" "	-	30	12	75
Potatoes	" "	-	10	1	25
Beef	" "	1	60	22	00
Cigarettes	1 pk	-	20	4	00
Vodka	1 bot	6	00	65	00
Printed calico	1 m	-	60	9	00
"Boston" silk	" "	8	00	350	00
Silk stockings	1 pr	1	50	35	00
Leather oxfords	" "	8	00	240	00
Total		27	50	755	40

Index of market price of ruble in relation to dollar

1

28

NOTE: 1. Prices of food and industrial consumer goods in the USSR are taken from the official figures published in *Izvestiya*, and take into consideration price cuts after 1 August 1950.

11. Prices of food and industrial goods in the US are taken from *the Catalog of Prices of the Federal Government* (literally, "catalog and price list of prices" from initials of US publication, "Price Index of Chief Commodities and Services").

- 28 -

S-E-C-R-E-T**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

Table 3. The USSR Budget for the Prewar Year 1940 and the Postwar Years 1947 - 1950

EXPENDITURES						
Item	1940	1947	1948	1949	1950	Total 1947-1950
The National Economy	58.4	131.8	158.0	161.9	164.4	616.1
including:						
Industry	28.6	79.9	81.0	83.0	85.3	329.2
Agriculture	12.2	16.2	25.0	30.0	36.6	107.8
Transport and						
Communications	5.3	13.2	14.0	14.5	15.0	56.7
Trade	2.0	3.8	5.0	7.0	9.3	25.1
Undisclosed items	10.3	18.7	33.0	27.4	18.2	97.3
Social-Cultural	40.9	107.1	112.0	116.0	120.7	455.8
Defense	56.9	67.0	79.0	79.2	79.4	304.6
Administration	6.8	12.8	13.0	13.5	13.9	53.2
Undisclosed items	21.6	55.4	8.9	41.7	49.5	155.5
Surplus of revenue over expenditures	5.9	20.1	39.6	24.7	5.2	89.6
Total	180.2	394.2	410.5	437.0	433.1	1,674.8
REVENUES						
Turnover tax	105.9	256.1	265.0	260.0	238.4	1,019.5
Deduction from profits	21.7	18.7	26.0	35.0	39.8	119.5
Direct taxes	9.4	27.7	31.0	33.0	36.4	128.1
State loans	11.5	22.4	25.0	28.0	31.8	107.2
Undisclosed sources	31.7	69.3	63.5	81.0	86.7	300.5
Total	180.2	394.2	410.5	437.0	433.1	1,674.8

NOTE 1. Full itemization of revenue and expenditures is not given in figures published by the VKP(b) on the USSR budget. Expenditures and revenues for which no information is available are listed here as "undisclosed items."

ii. Publication of the 1948 and 1949 budgets was limited to general budget totals: Insofar as the principle of "dynamic growth" is adhered to in published budget figures, the same principle is also taken as the basis for itemized distribution of expenditures and revenue for these 2 years.

iii. Budget figures are taken from those published by Pravda.

- 29 -

S E C R E T

**SECRET**

**SECRET**  
S-E-C-R-E-T

50X1-HUM

Table 4. Federal Budget of the US for 1940 and 1947 - 1950  
 (in billion dollars)

EXPENDITURES						
Item	1940	1947	1948	1949	1950	Total 1947-1950
Agriculture	1.5	1.3	0.6	2.5	2.6	7.0
Administration	0.3	1.3	1.4	1.2	1.2	5.1
Department of State and others	0.1	6.5	4.8	6.4	5.0	22.7
Payment of interest on National Debt	1.0	4.9	5.2	5.3	5.7	21.1
Payment to veterans	0.5	7.3	6.5	6.6	6.9	27.3
Social Security	3.1	1.3	1.9	1.9	2.3	7.4
Defense	1.5	14.3	10.9	11.9	13.1	50.2
Other	1.3	2.4	2.5	4.2	6.5	15.6
Total	9.3	39.3	33.8	40.0	43.3	156.4
REVENUES						
Taxes from pop- ulation	1.3	20.4	21.9	18.7	18.7	79.7
Income tax	0.8	2.0	2.1	2.5	3.0	9.9
Excise tax	1.8	7.3	7.4	7.5	7.6	29.8
Corporation tax	1.3	9.6	10.2	11.5	11.2	42.5
Customs duties	0.3	0.5	0.4	0.4	0.4	1.7
Other taxes	0.4	4.6	3.8	2.6	1.3	12.3
Total	5.9	44.4	46.1	42.6	42.2	175.3
Return pay- ments	0.5	4.4	3.9	4.4	4.4	17.1
Net income	5.4	40.0	42.2	38.2	37.8	158.2
Deficit	3.9	-	-	1.8	5.5	7.3
Surplus	-	0.7	8.4	-	-	8.4/sic/
Total	9.3	39.3	33.8	40.0	43.3	156.4

NOTE: Figures on US budget revenues and expenditures are taken from those published in [end of sentence missing].

- E N D -

- 30 -  
S-E-C-R-E-T

**SECRET**